

Status: Ready To File

Western Massachusetts Electric Company
Docket No. DTE 04-106

Information Request DTE-03
Dated: 12/17/2004
Q- DTE3-004
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Witness: Richard A. Soderman
Request from: Department of Telecommunications and Energy

Question:

Refer to the Company's response to Information Request DTE 1-18, at 2. Please explain in detail (1) the \$1,829,000 income tax adjustment for permanent and flow through differences and (2) why these taxes are not recovered through the creation of a regulatory asset pursuant to Financial Accounting Standards Board 109.

Response:

Implicit in a calculation of income tax expense based simply on a return on rate base is the assumption that any differences in the timing of the recognition of income and expense between book income and taxable income receive tax normalization accounting treatment. In WMECO's case there are such differences that did not receive normalization treatment in past rate cases, and result in impacts to book income due to flowing through the tax impacts of these items. The \$1,829,000 adjustment is the total of these timing differences plus one permanent difference, as shown below, for 2003.

	\$000's
Flow through differences:	
Plant depreciation differences	1,226
Salvage on fully depreciated plant	303
Provision for uncollectible accounts	275
Permanent difference:	
Meals expense disallowance	24
Total	1,829

The future tax impacts associated with the flow through differences are included in the net regulatory asset (and the offsetting net tax liability) for FAS 109, but WMECO currently has no Department specified recovery stream for this asset. The "recovery" of the FAS 109 regulatory asset occurs as the tax impacts of the flow through differences affect book income as the \$1,829,000 adjustment does in 2003. The permanent difference is not a part of the FAS 109 regulatory asset.

